

VZCZCXRO9168  
OO RUEHROV  
DE RUEHKH #1484/01 2801034  
ZNR UUUUU ZZH  
O 061034Z OCT 08 ZDK  
FM AMEMBASSY KHARTOUM  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2016  
INFO RUCNIAD/IGAD COLLECTIVE  
RHMFISS/CJTJF HOA

UNCLAS SECTION 01 OF 02 KHARTOUM 001484

DEPT FOR AF A/S FRAZER, SE WILLIAMSON, AF/SPG, EEB/IFD  
NSC FOR PITTMAN AND HUDSON  
DEPT PLS PASS USAID FOR AFR/SUDAN  
DEPT PLS PASS TREASURY FOR OIA, IMF AND WORLD BANK  
ADDIS ABABA ALSO FOR USAU

SENSITIVE  
SIPDIS

E.O. 12958: N/A  
TAGS: [EFIN](#) [ECON](#) [EAID](#) [PGOV](#) [SU](#)  
SUBJECT: BOOMING OIL REVENUES PROVIDE SOUTH SUDAN WITH BUDGET  
SURPLUS

REF: KHARTOUM 926

11. (SBU) SUMMARY: An oil-revenue windfall will more than cancel out mismanagement of budget expenditures in early 2008 and leave the GoSS with a significant fiscal surplus, according to the south Sudan World Bank manager. By year's end the government may have set aside as much as \$500 million in reserve. Although GoSS revenues may be even greater in 2009, decreasing long-term oil production and prices, and continued inability to exercise expenditure-side discipline could lead to longer-term problems. END SUMMARY.

#### GoSS Reaps Revenue Windfall

12. (SBU) Despite seriously overshooting its expenditure targets in the first half of the year (reftel), the Government of South Sudan is poised to achieve a significant budget surplus in 2008, according to South Sudan World bank manager Lawrence Clarke. On October 2, Clark told the U.S. trade delegation visiting Juba that the GoSS is benefiting from an oil-revenue windfall. Clarke estimates that the GoSS will reap \$2.6 billion this year in oil revenues under the wealth-sharing provisions of the Comprehensive Peace Agreement. (Note: Under the CPA, revenues from oil produced in south Sudan are divided equally between the Government of National Unity in Khartoum and the GoSS. End Note.)

#### Saving for a Rainy Day

13. (SBU) Clarke said that the GoSS Ministry of Finance plans to deposit a significant portion of these funds in its reserve account. Currently, there is \$300 million in the Reserve Account. Clarke expects this to grow to \$500 million by year's end. (Note: The GoSS drew down the Reserve Account to almost zero in 2007, in order to cover an exploding fiscal deficit and end the year with a balanced budget. End Note.) The GoSS plans to hold this money in reserve as insurance against a possible rupture with the GNU resulting from an ICC indictment of President Al Bashir.

#### Trouble on the Expenditure Side

14. (SBU) Responding to a question, Clarke acknowledged that in the first half of the year, the GoSS had once more seriously overspent its budget targets, with some Ministries using up almost their entire budget allocations for the entire year. This was especially true of the SPLA. Clarke attributed this to the very large proportion of the GoSS budget devoted to salaries and its policy of "social employment." The GoSS remains committed to providing salaries to SPLA veterans of the civil war and their dependents, until alternative means of employment can be developed. Clarke expects the GoSS to introduce a budget supplemental in the near future to cover the additional spending.

#### Clouds on the Long-Term Horizon

- - - - -  
15. (SBU) Clarke foresaw potential problems in outlying years. Sudan's oil production is beginning to slow and world oil prices could begin to decline. Still, Clarke said, a 2009 revenue increase of 30 percent remains a not-impossible best-case-scenario. The GoSS is currently evaluating potential spending alternatives should the additional revenues actually be forthcoming. He also spoke highly of GoSS' budget preparation, saying that it is improving year by year.

"Poised for a Takeoff"

- - - - -  
16. (SBU) More broadly, Clarke was extremely upbeat about south Sudan's economic progress and potential. He described the South as "on the right track" and "poised for a takeoff." He compared south Sudan to Botswana when he served there in the early 1990's, and believes that it has the potential for similar economic progress in the coming 15 years.

Comment

- - - - -  
17. (SBU) The GoSS revenue windfall and its ability to sock away significant amounts for a rainy day is good news. However, the government's seeming inability to control the spending side of budget implementation, the continued high proportion of funds going to pay salaries, and its almost total dependence on oil as a revenue source could spell serious trouble if revenues fall off in the future. The political unknowns (which would cause a dramatic decline in revenue) are whether the GNU will hold together through 2011, can the SPLM and NCP negotiate a post-2011 revenue sharing plan (assuming separation) that will allow the South to transport its oil through the North, and can the South continue to maintain

KHARTOUM 00001484 002 OF 002

internal stability. The possibility of political ruptures in the GNU, an early unilateral declaration of independence without a plan for revenue sharing, or instability in the South are all good reasons for the GOSS to set aside a sizable reserve during the final three years of the CPA.

ASQUINO